



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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January 18, 1979

Ms. June Vitale, Manuscript Editor
Journal of Accountancy
1211 Avenue of the Americas
New York, New York 10036



Dear Ms. Vitale:

I am enclosing a retyped version of my testimony pursuant to the letter of January 10, 1979, from Barbara J. Shildneck, Managing Editor, requesting permission to use the testimony in a forthcoming Journal article. You will note we have added answers to questions you posed and have added a couple of additional paragraphs to explain a couple of our points more fully.

As Mr. Scantlebury discussed with you by phone, the headlines do not seem appropriate. The FASB has the Independence and Expertise is subject to challenge. One point made by many state and local accountants is that the FASB does not have sufficient expertise. The other title The NCGA has the Authority and Experience is also inappropriate since the NCGA has no real authority save that conferred upon it by those it represents. I would suggest the following as substitutes:

The FASB has the Independence

The NCGA has the Experience

Since this testimony was given, much has happened to bring about the kind of cooperation suggested in my testimony. You might want to include something like the following in your editors comments on the developments on this matter.

"At this writing, it appears that this cooperation is very likely to occur. In early December, the Members of the NCGA and the FASB met in the FASB offices in Stamford, Connecticut to discuss their mutual interests in this matter. As I understand it, the NCGA has offered to work with the FASB in a cooperation project to develop objectives of financial statements. A sub-committee of the FASAC recommended that the FASB cooperate with NCGA in such a project."

The FASB has not yet taken formal action concurring in this joint effort.

Please call Mr. Scantlebury on 202-275-5150 if you have any questions on the enclosed.

Sincerely yours,

(SIGNED) ELMER B. STAATS

Comptroller General
of the United States

Enclosure

THE NCGA HAS THE EXPERIENCE

We in the federal government are increasingly concerned with the financial reporting of state and local governments because we rely on their accounting systems to provide us with information on how they spend federal grant and revenue sharing funds. Such funds now total about \$85 billion annually and are quite naturally of a great deal of concern to federal officers with responsibility for seeing that such funds are used effectively for properly authorized purposes.

State and local governments have long looked to the National Council on Governmental Accounting (NCGA) as the authoritative body for prescribing the accounting principles they follow. As you know, the NCGA issued its memorandum of accounting principles in 1968 in a publication called Government Accounting, Auditing and Financial Reporting or, for short, GAAFR. The GAAFR accounting principles have been widely accepted by the accounting community, particularly for municipal governments.

The NCGA has recognized that the GAAFR needs updating and revision to meet today's accounting needs. With this need in mind, it has taken a two pronged approach to meeting that need. The first is a shortrange effort called the GAAFR restatement, which is to update and clarify the GAAFR; the second is a longer-range and more ambitious

project to establish a conceptual framework for the accounting of state and local governments and to rethink the accounting and reporting principles in light of the conceptual framework.

With respect to state governments, the council of state governments' committee on state government accounting principles and practices, together with a project committee jointly representing the state accounting task force of the NCGA and several national organizations of state government officials and public accounting firms, has undertaken a project to develop an inventory of current state accounting principles and preferred practices.

As mentioned above, the NCGA has initiated a project to develop the conceptual framework for municipalities and has developed plans for subsequent reconsideration of existing accounting and reporting principles for local governments. The result of this work would be a new version of the GAAFR. The NCGA has applied to the Department of Housing and Urban Development for a grant to help it secure appropriate staff for its work and has engaged William Holder, Associate Professor, Texas Tech University, to start the research necessary to develop the conceptual framework. It has been estimated that the project will take 36 months to complete. Professor Holder started work on the project about November 1, 1978.

In view of this substantial effort by state and local governments to produce accounting principles and reporting standards that will adequately serve their segments of the economy, it seems to me that the FASB should cooperate with the NCGA and the council of state governments rather than establish a competing project.

We believe that another good reason for a joint or cooperative NCGA-FASB effort is that there are some organizations in each of the three sectors (business, government and nonprofits) that perform the same functions. For instance, there are profit-making hospitals, government-operated hospitals and non-profit hospitals. A similar situation exists for some educational institutions and libraries. Cooperation between the two groups would seem to lead to the maximum similarity in the principles applicable to each sector while taking advantage of the experience and research capability of both the NCGA and the FASB. Maximum similarity in the principles applicable to such organizations would have many advantages--one important one being that comparisons would be facilitated.

There are other factors related to my conclusions on this matter. Some people have suggested that the FASB should develop a conceptual framework for government but stop short of prescribing accounting principles. I believe this is impractical because the conceptual framework will predetermine what many of the decisions regarding accounting

principles will be. The establishment of a conceptual framework by a body not ultimately responsible for setting the accounting principles could result in conflicts that would be difficult to resolve.

In my opinion, there are substantial differences in the function served by financial reports of state and local governments and those of private corporations. I need not go into detail as to these differences here because these have been pointed up by many others, but it is clear to me that there will be important differences between accounting principles for corporations and for governments. Furthermore, some contend that unless FASB developed accounting principles are followed, CPA's will find it difficult to certify financial statements for state and local governments and, hence, investor confidence in state and local bond issues will be lessened. I do not find this argument persuasive. CPA firms, in fact, now audit some state and local governments' financial statements, largely following principles developed by the NCGA and set forth in the existing GAAFR, and are usually able to give useful opinions on the financial statements.

Another matter is the workload of the FASB itself. Currently, the accounting issues it faces in the corporate and nonprofit, nongovernment areas are so extensive that to take on government accounting, too, would seem to

unduly fragment its activities. Expanding its workload in this way might prevent the FASB from doing its major tasks as promptly and effectively as it should.

Finally, state governments have the sovereign right to set their own accounting standards just as the federal government does, and there is doubt that they would accept the FASB's work in this area if it were performed. All but a few state governments, I am told, have assigned specific responsibility for this task to a particular state official.

In conclusion, let me urge that the FASB cooperate with the NCGA in the development of accounting and reporting standards for state and local governments. Perhaps a joint effort would provide a means by which the interests of both organizations could be realized. The FASB could still step in if it is clear that such an effort could not perform this task in a timely and effective manner.